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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
April 1989

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STRONG DOLLAR INDICATES THAT FED IS TOO TIGHT

The surge in commodity inflation early in 1989 clearly exceeded Federal Reserve and other analysts' expectations. As a result, the Federal Reserve has moved toward substantial restraint in recent months. Between January and our May estimate, the monetary base has increased at an annual rate of only 2%. M1 has actually declined by 2.5% at annual rates although liquidation of some thrift assets and deposits has contributed to that. However, M2, which is not as significantly impacted by shrinkage in the thrift industry has increased only an annualized 1.2%. If growth in the monetary aggregates has any impact upon economic conditions, this dramatic slowing has significant implications for future economic conditions.

Initially, Federal Reserve restraint was tilting against the wind of significant economic growth. Capacity utilization was rising, reaching a peak of 84.3% in January. As a result, Federal Reserve restraint was accompanied by significant increases in short-term interest rates. The federal funds rate increased by a full percentage point from December through March. Although long-term interest rates also increased, investors viewed the Federal Reserve restraint as necessary to prevent inflation from intensifying. Thus, the long-term bond increased only from a yield of 9.01% in December to 9.17% in March.

Recent statistics show that the combination of unusual weather patterns and early Federal Reserve restraint led to an actual drop in industrial activity during February. This slowing of industrial activity led to moderation in the growth of industrial prices and some weakening of commodity inflation excluding energy. Unfortunately, a combination of minor energy disruptions and a significant lag in response of petroleum product prices to previous increases in prices

for crude petroleum screened this moderation in industrial inflation from the monetary authorities. With no clearcut evidence that commodity inflation has begun to unwind, the Federal Reserve has continued to "stay the course".

Unfortunately, the Federal Reserve appears to be falling into the same trap that has plagued monetary policy in previous eras. They perceive that staying the course means maintaining prevailing rates of interest. However, the slowing in industrial activity along with moderation in industrial inflation excluding oil has begun reducing the demand for money. The result has been an actual decline in monetary aggregates. In other words, the Federal Reserve currently is more restrained than earlier in the year, the time when restraint was appropriate.

Also, excusing the collapse in checkable deposits as a side effect of the liquidation of deposits at some thrifts may be understating the economic impact that those declining deposits are exerting upon economic conditions. Some of the growing desire to save by consumers may be related to economic concerns arising from the thrift crisis. Despite strong income growth, real consumer spending has been trending downward since January. This has occurred despite auto financing incentives that have largely removed the interest restraint from sales in that sector.

Of course, the strongest signs that monetary policy has become too restrained in the United States and is becoming increasingly restrictive is the surge in the dollar's value. Since December, the trade-weighted value of the dollar has increased 7.7% and has risen by nearly 10% against the German mark and the Japanese yen in the past two months. Although, rising short-term interest rates clearly raised the attractiveness of the dollar, and success with higher interest rates led to greater foreign capital flows into American assets, the latest surge in the dollar has occurred despite a modest narrowing of interest rate differentials. A reduction in merchandise trade deficits also has aided the dollar's strength, but no one ever said that economic experiments can be totally purified. Until monetary restraint eases, the dollar should continue to increase in value.

This has a positive and a negative effect upon economic conditions in the United States. The positive effect clearly is a substantial slowing of inflationary pressures. Imported goods are already beginning to decline in price, with the exception of oil. Further price increases for industrial materials in the United States will be difficult. Indeed, continuation of the dollar's strength could lead to a replay of 1985 in the industrial sector. However, unlike 1985, when consumer spending was strong and construction was still rebounding, those sectors also are weakening. Therefore, the negative impact of a strengthening dollar is a significant decline in economic activity next year.

Some Federal Reserve easing is anticipated, suggesting that bond prices have peaked. However, the Federal Reserve probably will not move aggressively until prior to the Economic Summit, which is scheduled for mid-July. Certainly, the U.S. does not want to enter that economic summit with an appreciating dollar.

Unfortunately, the Federal Reserve probably already has stayed too tight too long. As a result, economic activity is expected to slow significantly late this year and early next year. This should lead to a further downward movement in both short-term and long-term interest rates early in 1990.

Quarterly Profile of GNP

	<u>1989-1</u>	<u>1989-2</u>	<u>1989-3</u>	<u>1989-4</u>	<u>1990-1</u>	<u>1990-2</u>	<u>1989 Annual</u>	<u>1990 Annual</u>
Real:	5.5	0.8	1.8	1.3	1.4	-0.9	2.7	0.8
Price:	3.9	5.1	5.0	4.5	4.6	5.4	4.7	5.2
Nominal:	9.6	6.0	6.9	6.0	5.8	4.5	7.5	6.1

Monthly Statistical Highlights

	<u>April 1989</u>	<u>May 1989</u>	<u>June 1989</u>
Payroll Employment		+201,000	+230,000
Index of Hours Worked		-0.7%	+0.2%
Household Employment		+216,000	+254,000
Civilian Unemployment Rate		5.2%	5.2%
Personal Income	+0.8%	+0.2%	+0.5%
Savings Rate	6.6%	6.2%	6.0%
Personal Consumption	+0.5%	+0.6%	+0.5%
Retail Sales		+0.7%	+0.2%
Auto Sales		10.5 *	10.1 *
Housing Starts		+3.0%	-1.3%
Housing Permits		-1.9%	+1.1%
Construction Expenditures	-1.2%	+0.2%	-0.4%
Business Inventories	+0.4%	+0.5%	+0.5%
Orders for Durable Goods		-0.2%	+0.4%
Orders for Nondefense Capital Goods		-1.1%	+0.8%
Industrial Production		+0.2%	+0.1%
CPI		+0.6%	+0.4%
PPI		+0.6%	+0.4%
Consumption Deflator	+0.8%	+0.4%	+0.5%
Leading Indicators	+0.6%	+0.1%	0.0%
Currency Index		+1.5%	+0.3%
Equity Index		+2.7%	+1.3%
Real GNP (Annual Rate)	+0.6%	+3.3%	-0.3%
M1 (Annual Rate)		-4.9%	+8.0%
M2 (Annual Rate)		-1.6%	+7.1%

* auto sales in million units

Commentary

Employment - April's employment release was another confusing affair. Payroll employment was up only 117,000 and household employment actually declined because of a more than 100,000 decline in agricultural workers. This certainly led to a significant increase in the unemployment rate. However, the hours worked increased sharply. The reported reason for this was the absence of Easter holiday distortion, which the seasonal values partially assumed. If so, the workweek will slip significantly next month. A sharp slowing in the dispersion index to an increase of only slightly more than 53% seemed to confirm that economic activity was continuing to weaken. However, industrial production rebounded stronger than would be anticipated by employment in manufacturing, though not by as much as the hours worked in manufacturing. Moreover, initial unemployment claims have begun again to trend downward slightly while the insured unemployment rate has again fallen to 2.0%. This suggests that some strengthening of economic activity should be surfacing.

One partially negative part of the report was a 0.7% increase in the hourly earnings index. However, this was muted slightly by a downward revision in the earnings index for the previous month.

Personal Income and Outlays - As expected, farm subsidies weakened in March and are now down to levels that could be sustained. However, interest income continues to rise sharply, although declining interest rates in May may shrink that \$12 billion per month gain. In addition, personal income in March was aided by some accrued transfer payments that were realized. As a result, transfer payments should flatten in April. The dilemma with personal income for April will be with the wage component, which reflects the extended workweek and higher hourly earnings from the employment report. The size of the wage gains will dictate how much of a distortion the employment figures truly were. With such a surge in April, wage activity should flatten in May. One possible surprise could be the sharp increase in tax collections that apparently are being caused by a significant unbundling of previous tax shelters. Although no such dramatic increase in tax liabilities currently is being projected, this could sharply reduce disposable income in April. Of course, a snapback then would be expected in May.

As April weakness in retail sales appears to be inconsistent with the sharp increase in sales of auto units and an only moderate decline in auto prices for April. This could lead to a significant upward revision in the durables component of consumer spending. However, such adjustments were not made. Of more attention is the significant decline occurring in the non-auto durables. The dip in housing activity clearly is generating significant weakness in household furnishings. Further weakness should develop. Also, sharp increases in gasoline prices will be reflected in nondurable sales in April and May.

Our estimates currently show a decline in consumer spending in the second quarter after adjustment for inflation. This will significantly reduce GNP growth for that quarter.

Construction - The March slump in housing permits, especially for multiple units, was reflected in multiple construction activity in April. As the April

permits showed a sharp rebound, some rebound probably should be anticipated in multi-family activity for May. Single-family housing rebounded in the Northeast following surprising weakness in previous months. This probably is an aberration and does not reflect a rebound in the single-family housing sector at this time. Although mortgage rates are beginning to fall, consumers typically remain on the sidelines for several months after the housing market begins declining.

The slippage in residential construction, especially in the multiple area, should lead to significant declines in spending on residential construction in the months ahead. On the other hand, the March dip in public construction was excessive and probably will be followed by a rebound in the next few months. A sharp increase in nonresidential construction was surprising and widespread. Some slowing in commercial and office building still is anticipated in the months ahead.

Sluggish construction activity has led to minimal gains in construction prices in the past few months. As commodity inflation excites greater price increases for some construction components and as some construction workers garner larger wage increases, some acceleration in the construction deflator is expected. Nevertheless, the construction sector will be a restraining factor upon inflation over the next two years.

Business Activity - Slower sales earlier in the year have led to some slowing in business inventories as well. When these are combined with the sharp increase in inventory valuations, inventories after inflation adjustment are growing at a modest rate at this time. This surprisingly rapid adjustment to changing sales conditions may prevent any serious weakening in production in the months ahead.

Durable goods activity continues to perform as strongly as anticipated. Most of the additional orders are in aerospace, where backlogs are so long that new orders have minimal impact upon current-year activity. Nevertheless, the gap between nondefense capital goods orders and nondefense shipments is so large that significant growth in capital spending should be anticipated into 1990.

The rebound in industrial production was stronger than anticipated by the employment report. However, industrial production was revised downward sharply in February and showed no rebound in March. This led to lower capacity utilization than originally projected. As a result of these revisions, industrial activity is not expected to grow as rapidly as in the February forecast. This also means that capacity utilization will not intensify further in the next year. As a result, industrial inflation should gradually diminish its rate of intensity.

Prices - The auto incentives implied in the PPI only partially were apparent in the CPI for April. Probably, the incentives were not as large as the PPI projected. If so, one more significant increase in both inflation indicators should be anticipated next month. Following that, commodity inflation should ease, causing moderation in the PPI and some slowing in the commodity portion of the CPI. However, accelerating wage pressures should lead to higher than forecasted CPI estimates for much of this year and early into next year.

The largest increases in the consumer deflator should be occurring in March and April. Then, inflationary pressures should ease. Similar patterns are anticipated in the GNP deflator.

Miscellaneous - The trade balances improved more than anticipated as a result of strong increases in world demand for American manufactured goods and American grains. This reduction in trade deficits along with significant Federal Reserve scarcity has led to significant acceleration in the dollar's value. As a result, the currency index could reach 100 in the next month. There is no doubt that a sustained value of the dollar in excess of 140 yen and in excess of 2 German marks would lead to some reduction in those trade balances. Such is projected for the months ahead.

Also of note is a significant deterioration in the quality of profits. Our adjusted profits, which reflect profits after eliminating shifts in tax treatment of depreciation and the inventory valuation, deteriorated sharply during the first quarter. Some rebound is anticipated in the spring and early summer. Apparently, the stock market was unwilling to acknowledge deterioration in the quality of profits and has responded favorably to the decline in interest rates. More will be said later, but this suggests some vulnerability in equity values.

The leading indicators probably peaked at 145.9 in January, although they will again approach that peak in the next few months. Despite the shrinkage in the money stock, the leading indicators almost certainly rose in April as a result of improvement in the workweek, initial claims, orders, permits, and stock prices. A further increase in May could be led by stock prices, although a weakening in sensitive prices and a reversal of the hours worked could derail such a positive event.

Most of the sharp increase in the IVA is the result of sharp increases in oil prices. However, the IVA probably will increase further during the second quarter. This leads to an increase in corporate tax burdens that should impact adversely the adjusted profits of corporations. Then, the quality of profits should improve later this year.

Financial Markets

Apparently, the swing in the household sector has been more significant in altering interest rates than originally anticipated. A sharp rebound in household savings significantly added to the household contribution to credit markets in the first quarter. Then, a significant slowing in housing activity led to further net additions by the household sector during the spring. Further moderate contributions from the household sector are anticipated in the summer before the household sector no longer has such a dramatic impact upon credit market pressures.

Even as the household sector was raising savings, the government sector was able to increase revenues. This has led to a significant shrinkage in government deficits in the winter and spring. Indeed, the deficit currently is

running at an annual rate of \$145 billion. However, those deficits should increase during the second half of the year. No dramatic surge in government borrowings is anticipated next year, but some further modest increase in government deficits should be anticipated.

Initially, the surge in IVA led to significant increases in corporate borrowings. That surge is beginning to crest. Corporations still are borrowing heavily as a result of significant capital spending programs. There should be some lessening in capital spending activity late this year. On balance, however, the corporate sector is increasing its needs for funds, which normally would lead to rising rates of interest. However, the dramatic shift in the household sector along with some moderate improvement in government borrowings has cancelled out the adverse impact from the corporate sector. As a result, the domestic savings and investment activity should be leading to a slight decline in interest rates at the present time followed by modest interest rate firming later this year.

However, the foreign investor once again has led the interest rate charge. This time, the substantial shortage of dollars has led to a surge in the dollar's value against other currencies. As a result, the positive interest rate differential in the United States has been dramatically attracting investor funds from abroad. The result has been a significant downward movement of interest rates. This downward movement in interest rates probably will persist until the dollar stabilizes. If so, interest rates could fall significantly over the next few months. Then, a period of interest rate stability or even a slight rebound in interest rates could be anticipated. However, the dollar's strength almost certainly will lead to reduced improvement in the trade accounts. Therefore, further weakening in economic activity leading to renewed interest rate declines early next year should be anticipated.

Equity Markets - The foreign investor has also been a factor in holding up equity values. As mentioned earlier, corporate profitability is deteriorating in quality. At some point, actual corporate profits also should be declining as wage pressures continue to intensify while revenues begin to weaken under the onslaught of Federal Reserve restraint. Although the financial sector should do quite well and insurance companies may also rebound, there should be significant weakness in the multi-national companies that usually are associated with the Dow along with some consumer-oriented companies. For this reason, the stock market is expected to show a significant downward correction. However, such a correction probably will not develop until the dollar begin declining. Such a decline is not anticipated until the summer. Unfortunately, the stock market currently has the feel of the market in 1987. How ironic, if the market rallies into the summer months and then begins declining again. If so, profit taking clearly will be in order. In the meantime, don't fight the tape or falling interest rates. The signal to start unloading stocks should be when the dollar crests in its upward move.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	106973	106973	127.1	127.1	115573	115573	5.3	5.3	9.43	9.43
November	107377	107419	127.0	127.1	115947	115947	5.4	5.4	9.42	9.42
December	107656	107641	127.1	127.2	116009	116009	5.3	5.3	9.44	9.45
January 1989	108026	108065	127.6	128.3	116435	116711	5.3	5.4	9.50	9.49
February	108277	108341	128.0	127.8	116700	116853	5.2	5.1	9.55	9.50
March	108526	108512	128.4	128.1	116965	117136	5.2	5.0	9.60	9.52
April	108753	108629	128.7	129.5	117168	117113	5.1	5.3	9.63	9.59
May	108960	108830*	129.0	128.6*	117381	117329*	5.0	5.2*	9.66	9.62
June	109165	109060	129.2	128.8	117592	117583	5.0	5.2	9.68	9.64
July	109328	109314	129.4	129.1	117746	117840	5.0	5.1	9.72	9.68
August	109555	109530	129.7	129.3	117980	118069	5.0	5.0	9.77	9.73
September	109784	109784	129.9	129.6	118221	118290	4.9	5.0	9.81	9.77
October	109938	109986	130.0	129.8	118403	118533	4.9	5.0	9.85	9.80
November	110037	110170	130.2	130.0	118559	118732	4.9	5.1	9.90	9.84
December	110235	110321	130.3	130.1	118716	118882	4.9	5.1	9.95	9.89
January 1990	110423	110473	130.6	130.2	118914	119044	4.8	5.2	9.99	9.93
February	110617	110498	130.8	130.2	119151	119065	4.8	5.3	10.04	9.97
March	110809	110450	131.1	130.0	119362	119062	4.9	5.4	10.09	10.02

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	4.184	4.176	2.512	2.507	182.9	170.8	3.587	3.580	3.404	3.409
November	4.175	4.165	2.520	2.514	153.3	140.1	3.577	3.568	3.423	3.428
December	4.196	4.201	2.522	2.530	157.6	150.4	3.598	3.600	3.440	3.449
January 1989	4.223	4.272	2.543	2.559	167.9	187.9	3.620	3.659	3.452	3.472
February	4.272	4.316	2.571	2.571	189.6	213.7	3.664	3.701	3.474	3.487
March	4.320	4.350	2.599	2.592	206.3	234.0	3.702	3.729	3.496	3.495
April	4.343	4.386*	2.608	2.630*	200.6	246.3*	3.719	3.760*	3.518	3.514*
May	4.366	4.396	2.617	2.630	196.7	233.9	3.734	3.769	3.537	3.535
June	4.389	4.416	2.626	2.641	197.3	228.5	3.750	3.780	3.553	3.552
July	4.412	4.445	2.645	2.660	197.1	242.2	3.773	3.808	3.576	3.566
August	4.434	4.472	2.665	2.679	199.8	236.7	3.797	3.832	3.597	3.595
September	4.456	4.498	2.686	2.698	201.8	247.0	3.820	3.856	3.618	3.609
October	4.479	4.517	2.699	2.712	195.3	231.6	3.835	3.872	3.640	3.640
November	4.501	4.541	2.712	2.729	192.7	230.3	3.852	3.892	3.659	3.662
December	4.523	4.560	2.725	2.746	191.1	229.1	3.868	3.908	3.677	3.679
January 1990	4.552	4.581	2.744	2.761	194.2	231.7	3.895	3.927	3.701	3.695
February	4.582	4.600	2.764	2.773	202.5	227.4	3.926	3.943	3.724	3.716
March	4.613	4.621	2.785	2.785	209.4	223.0	3.953	3.961	3.744	3.738

Fore. = February Forecast

C.E. = Current Expectations

* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	3302.9	3307.7	452.0	453.2	1071.3	1071.3	1778.8	1783.2	2613.6	2617.1
November	3321.6	3325.4	453.6	458.6	1077.4	1080.9	1782.6	1785.9	2617.9	2626.9
December	3335.8	3346.0	472.1	480.2	1076.9	1069.4	1795.5	1796.4	2635.4	2634.6
January 1989	3349.1	3367.8	460.7	469.1	1080.5	1088.9	1807.6	1809.8	2628.8	2634.1
February	3371.0	3383.2	463.5	461.0	1085.6	1093.9	1821.9	1828.4	2637.7	2641.0
March	3391.9	3390.3	466.5	454.3*	1090.8	1098.4	1834.6	1837.6	2643.7	2629.4
April	3414.1	3408.7*	470.2	456.2	1097.4	1105.2*	1846.5	1847.3*	2646.6	2624.5*
May	3432.5	3429.6	472.4	456.5	1101.3	1114.6	1858.5	1858.5	2648.5	2630.7
June	3447.4	3445.5	471.6	453.7	1105.5	1121.6	1870.3	1870.2	2647.8	2628.9
July	3470.1	3459.2	474.3	451.4	1113.4	1125.1	1882.4	1882.7	2655.0	2628.3
August	3490.9	3488.1	476.8	463.0	1118.6	1130.5	1895.5	1894.6	2662.8	2639.0
September	3511.4	3500.2	479.3	456.9	1123.9	1137.0	1908.2	1906.3	2670.3	2639.3
October	3532.3	3531.0	481.5	470.8	1130.1	1141.4	1920.7	1918.8	2671.9	2651.5
November	3551.1	3551.7	483.3	473.9	1134.0	1146.6	1933.8	1931.2	2672.0	2656.5
December	3567.9	3568.2	483.3	472.7	1138.0	1151.2	1946.6	1944.3	2672.6	2658.1
January 1990	3591.6	3584.0	486.5	471.7	1146.2	1155.4	1958.9	1956.9	2680.3	2658.1
February	3614.0	3603.8	489.4	474.4	1151.9	1161.6	1972.7	1967.8	2687.0	2663.7
March	3633.8	3625.6	490.2	477.7	1157.5	1167.7	1986.3	1980.2	2691.7	2669.1

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	136.56	136.56	20.90	20.90	9.8	9.9	85.36	85.36	30.30	30.30
November	137.81	137.87	21.10	21.10	10.2	10.2	85.80	85.80	30.91	30.91
December	138.03	137.86	21.51	21.79	11.7	11.5	85.70	85.24	30.82	30.83
January 1989	138.04	140.04	21.27	22.62	9.9	9.8	86.04	86.23	30.73	31.19
February	138.77	139.43	21.16	22.43	10.3	9.9	86.45	86.36	31.16	30.64
March	139.52	139.36	21.13	22.13	10.7	9.6	86.86	86.76	31.53	30.48
April	140.47	139.93	21.58	21.83	10.6	10.8	87.39	87.30	31.50	30.81
May	141.03	140.90*	21.57	22.06*	10.7	10.5*	87.70	88.04*	31.76	30.80*
June	141.27	141.13	21.65	21.92	10.6	10.1	88.03	88.59	31.59	30.62
July	141.50	141.31	21.88	21.76	10.2	10.0	88.66	88.93	30.96	30.51
August	142.90	142.98	22.24	21.83	10.5	10.6	89.08	89.36	31.58	31.79
September	143.60	142.72	21.99	21.99	10.8	10.1	89.50	89.81	32.11	30.92
October	144.34	144.68	22.38	21.87	10.1	10.4	89.99	90.16	31.97	32.65
November	144.86	145.45	22.23	22.00	10.3	10.5	90.30	90.57	32.33	32.88
December	145.18	145.67	21.80	22.23	10.6	10.3	90.62	90.93	32.76	32.51
January 1990	146.19	145.88	22.33	22.06	10.5	10.3	91.27	91.26	32.59	32.56
February	146.97	146.27	22.56	22.14	10.6	10.1	91.73	91.75	32.68	32.38
March	147.49	147.13	22.70	22.33	10.5	10.2	92.17	92.23	32.62	32.57

Fore. = February Forecast

C.E. = Current Expectations

* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	1.542	1.532	1.112	1.136	1.516	1.526	407.8	407.7	349.8	349.8
November	1.563	1.567	1.151	1.138	1.517	1.508	411.1	411.5	352.6	353.0
December	1.506	1.577	1.121	1.141	1.502	1.518	408.2	421.0	349.2	360.6
January 1989	1.490	1.678	1.095	1.199	1.473	1.486	410.3	418.0	350.4	358.9
February	1.443	1.465	1.063	1.029	1.416	1.403	409.8	414.8	349.7	355.7
March	1.405	1.399	1.032	0.986	1.372	1.230	409.4	413.5	348.7	354.2
April	1.457	1.361	1.056	1.036	1.375	1.318	409.3	408.6*	348.0	349.8*
May	1.490	1.402*	1.084	1.027*	1.413	1.293*	409.5	409.6	347.3	350.1
June	1.466	1.384	1.055	1.007	1.392	1.307	409.3	408.0	346.6	348.4
July	1.438	1.372	1.037	1.011	1.375	1.284	411.9	410.0	347.9	349.5
August	1.414	1.413	1.025	1.034	1.356	1.326	413.2	410.3	347.8	349.5
September	1.423	1.442	1.011	1.056	1.364	1.335	414.4	412.6	347.7	350.9
October	1.425	1.447	1.020	1.049	1.343	1.358	414.3	412.6	346.7	350.3
November	1.413	1.482	1.012	1.073	1.327	1.376	414.6	414.9	346.1	351.6
December	1.414	1.516	1.018	1.102	1.330	1.412	414.5	419.6	344.8	355.0
January 1990	1.369	1.511	0.984	1.100	1.306	1.405	414.9	420.8	344.0	355.1
February	1.358	1.513	0.976	1.093	1.298	1.416	416.1	422.7	343.9	355.8
March	1.345	1.509	0.968	1.085	1.299	1.403	417.4	423.5	343.5	355.6

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	130.9	130.7	77.9	77.0	199.0	200.0
November	129.7	131.7	80.9	79.2	200.4	200.6
December	128.4	133.9	79.5	85.4	200.3	201.7
January 1989	128.8	135.1	81.0	81.4	200.5	201.4
February	128.4	133.7	80.6	81.5	200.8	199.6
March	127.8	138.7	81.5	74.1	200.1	200.7
April	128.3	136.4*	81.7	77.3*	199.3	194.9*
May	128.8	136.9	82.0	80.4	198.7	192.3
June	129.2	137.5	82.0	80.1	198.1	190.4
July	129.5	137.2	82.5	80.6	199.9	192.2
August	129.8	137.0	82.6	81.4	200.8	191.9
September	130.1	136.4	82.8	82.3	201.5	193.9
October	130.4	136.0	83.0	81.5	200.9	195.1
November	130.6	136.3	83.2	82.6	200.8	196.0
December	130.9	136.5	82.8	83.4	200.8	199.7
January 1990	131.5	135.8	83.5	83.0	199.9	202.0
February	132.3	136.2	84.2	84.2	199.6	202.3
March	133.1	136.5	84.9	84.5	199.4	202.5

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	349.4	349.4	122.79	122.79	34.62	34.62	32.69	32.60
November	350.9	351.6	122.77	123.04	35.67	35.83	32.43	32.51
December	352.4	354.2	121.85	132.15	34.23	39.43	32.47	32.68
January 1989	354.3	357.5	123.74	128.48	34.93	40.35	32.96	33.33
February	356.8	359.1	122.19	124.11	33.67	37.19	33.02	33.46
March	359.2	360.4	122.85	125.21	33.84	38.09	33.10	34.03
April	361.5	362.7*	123.75	123.87*	34.26	38.67*	33.43	34.27*
May	363.6	364.7	123.14	123.65	34.05	38.26	33.88	34.52
June	365.8	366.3	123.67	124.16	34.35	38.55	34.25	34.89
July	367.9	368.8	124.51	125.09	34.97	39.07	34.56	35.16
August	369.5	370.4	125.89	125.11	35.37	38.82	34.65	35.27
September	372.3	372.0	125.11	124.83	35.11	38.51	34.47	35.53
October	374.6	374.6	124.48	124.55	34.96	38.26	34.69	35.89
November	376.8	377.3	125.93	125.13	35.22	38.39	34.83	36.05
December	378.9	380.5	126.21	124.67	35.29	38.06	34.98	36.17
January 1990	381.1	382.7	127.72	123.62	35.56	37.62	35.15	36.02
February	382.4	384.1	127.85	124.46	36.42	38.11	35.70	36.15
March	383.7	386.4	127.56	124.05	36.40	37.76	36.28	36.24

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	751.4	750.6	8.43	8.43	139.3	139.4	84.0	84.0
November	754.4	753.7	8.55	8.66	139.9	139.9	84.2	84.1
December	755.0	756.7	8.63	10.10	140.2	140.4	84.1	84.3
January 1989	760.6	759.8	8.54	8.73	140.8	140.8	84.3	84.3
February	766.5	763.6	8.51	8.40	141.2	140.4	84.4	83.9
March	772.3	765.6	8.43	8.50	141.6	140.5	84.5	83.7
April	775.7	768.7*	8.50	8.58*	142.3	141.1	84.8	83.9
May	779.6	772.4	8.55	8.69	142.7	141.4*	84.9	83.9*
June	783.4	776.0	8.56	8.65	143.2	141.6	85.1	83.8
July	788.1	781.2	8.53	8.70	143.4	141.8	85.0	83.7
August	792.0	785.1	8.55	8.73	143.2	142.3	84.7	83.9
September	795.8	789.5	8.56	8.70	143.5	142.6	84.7	83.9
October	801.1	792.9	8.59	8.62	143.7	143.0	84.6	84.0
November	806.6	796.6	8.61	8.69	143.8	143.1	84.5	83.9
December	812.1	800.4	8.63	8.84	143.9	143.2	84.4	83.8
January 1990	815.3	804.7	8.60	8.83	144.1	143.0	84.3	83.5
February	818.2	808.5	8.65	8.75	144.3	142.7	84.2	83.2
March	821.1	812.2	8.73	8.86	144.6	142.3	84.2	82.9

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PRICES

	CPI-U		PPI		PPI-Industrial		Estimated GNP	
	(seasonally adjusted)		Finished Goods (seasonally adjusted)		Commodities (unadjusted)		Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	119.9	120.0	109.5	109.2	107.1	107.1	123.4	123.5
November	120.3	120.3	109.8	109.4	107.4	107.5	123.8	124.0
December	120.8	120.7	110.3	109.9	108.1	108.1	124.2	124.4
January 1989	121.2	121.4	110.8	111.0	108.7	109.1	124.5	125.0
February	121.5	121.9	111.1	112.1	109.0	110.0	124.8	125.2
March	121.8	122.5	111.4	112.6	109.1	110.6	125.1	125.5
April	122.4	123.4	111.8	113.1	109.7	111.3	125.6	126.3
May	122.9	124.1*	112.1	113.8*	110.2	111.9*	126.1	126.7
June	123.3	124.6	112.4	114.2	110.6	112.2	126.5	127.4
July	124.0	125.0	112.8	114.4	111.3	112.4	127.0	127.9
August	124.7	125.5	113.3	114.7	111.8	112.6	127.4	128.4
September	125.4	125.9	113.9	114.7	110.5	111.0	127.8	128.8
October	125.9	126.5	114.4	115.0	111.8	113.0	128.4	129.3
November	126.3	127.0	114.8	115.3	112.1	113.2	128.9	129.8
December	126.7	127.5	115.1	115.6	112.4	113.5	129.5	130.3
January 1990	127.3	128.1	115.6	116.0	113.0	113.9	129.9	130.8
February	127.9	128.6	116.3	116.5	113.6	114.3	130.3	131.2
March	128.5	129.1	117.0	116.8	114.1	114.7	130.7	131.8

	Consumption		Consumer		Consumer		Consumer		Implicit	
	Deflator		Durables		Nondurables		Services		Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	126.4	126.4	111.0	111.1	118.4	118.4	136.8	136.7	116.6	116.6
November	126.6	126.6	111.1	111.1	118.2	118.2	137.3	137.4	116.6	116.6
December	126.9	127.0	111.8	112.0	118.4	118.4	137.8	137.9	116.9	116.7
January 1989	127.4	127.9	112.0	112.0	118.6	119.4	138.4	138.9	117.1	116.4
February	127.8	128.1	112.3	111.7	118.7	119.5	138.9	139.2	117.2	116.6
March	128.3	128.9	112.6	111.3	119.4	121.0	139.3	139.9	117.4	116.7
April	129.0	129.9*	112.9	111.6*	120.2	122.8*	140.0	140.4*	117.6	116.8*
May	129.6	130.4	113.1	111.3	120.9	123.5	140.8	141.0	117.9	117.0
June	130.2	131.1	113.3	112.2	121.5	124.1	141.5	141.6	118.1	117.1
July	130.7	131.6	113.7	112.4	121.8	124.5	142.1	142.3	118.4	117.3
August	131.1	132.2	114.1	113.0	122.0	125.0	142.7	143.0	118.8	117.4
September	131.5	132.6	114.5	112.8	122.3	125.4	143.3	143.6	119.2	117.6
October	132.2	133.2	114.8	113.4	123.0	125.9	144.0	144.3	119.5	117.8
November	132.9	133.7	115.1	113.7	123.8	126.3	144.7	145.0	119.8	118.0
December	133.5	134.2	115.4	113.9	124.6	126.7	145.4	145.7	120.2	118.2
January 1990	134.0	134.8	115.7	114.4	124.9	127.1	146.0	146.4	120.6	118.5
February	134.5	135.3	116.0	114.6	125.1	127.5	146.7	147.0	121.0	118.8
March	135.0	135.8	116.3	115.0	125.4	127.9	147.4	147.7	121.5	119.1

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators C.E.	Estimated GNP		Estimated GNP (1982 \$)		IVA (annual rate)	
	Fore.	C.E.		Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	-8.88	-8.78	143.9	4963	4970	4022	4024	-24.4	-20.6
November	-10.18	-10.66	144.1	4984	5001	4026	4033	-20.7	-19.3
December	-9.96	-10.99	144.8	5023	5028	4044	4042	-20.6	-20.4
January 1989	-10.26	-8.68	145.9	5066	5109	4069	4087	-20.1	-26.7
February	-10.72	-9.82	145.4	5085	5114	4075	4085	-21.4	-39.6
March	-10.35	-8.86	144.4	5120	5127	4093	4085	-22.7	-41.7
April	-10.11	-9.78*	145.3*	5153	5162	4103	4087	-21.9	-45.3
May	-10.01	-9.55	145.5	5186	5192	4113	4098	-21.5	-42.3
June	-9.86	-9.52	145.5	5219	5220	4126	4097	-21.3	-36.7
July	-9.95	-9.84	145.1	5237	5257	4124	4110	-25.9	-31.6
August	-9.81	-10.17	144.8	5258	5277	4127	4110	-28.3	-27.5
September	-9.65	-10.23	145.0	5279	5301	4131	4116	-31.0	-23.8
October	-9.55	-9.97	144.6	5305	5327	4132	4120	-27.6	-24.6
November	-9.94	-9.76	144.7	5334	5356	4138	4126	-25.3	-28.5
December	-10.28	-8.84	144.9	5362	5383	4141	4131	-23.1	-23.1
January 1990	-9.79	-8.73	144.3	5390	5407	4149	4134	-29.6	-18.9
February	-9.71	-8.21	144.5	5417	5430	4157	4139	-31.3	-21.6
March	-9.64	-8.42	144.2	5445	5453	4166	4138	-33.0	-24.8

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	95.10	95.10	185.4	190.5	8.89	8.89	156.36	156.36
November	91.91	91.91	186.9	190.6	9.02	9.02	152.67	152.67
December	92.65	91.88	177.3	203.3	9.01	9.01	155.34	155.35
January 1989	95.43	95.12	182.2	210.5	8.92	8.93	158.53	160.40
February	97.22	95.77	181.1	163.4	9.03	9.01	161.46	165.08
March	96.25	96.99	179.9	154.4	9.04	9.17	161.06	164.60
April	94.43	97.43*	178.5	159.8	8.86	9.03	163.49	169.38*
May	93.36	98.92	177.2	183.6	8.73	8.86*	162.25	175.26
June	92.71	99.26	175.8	185.2	9.02	8.82	158.07	177.52
July	92.43	97.43	171.2	193.7	9.38	8.69	154.62	171.88
August	92.00	95.67	169.3	190.4	9.53	8.68	151.72	165.35
September	91.66	92.55	167.6	191.6	9.51	8.73	148.85	160.44
October	90.43	93.76	166.8	190.3	9.63	8.55	150.25	163.65
November	86.55	93.16	165.5	191.7	9.69	8.59	149.53	163.03
December	86.92	91.48	164.5	196.5	9.83	8.68	148.86	161.36
January 1990	90.43	91.86	160.2	193.7	9.80	8.54	145.79	161.67
February	91.67	91.24	156.5	190.6	9.79	8.52	144.81	159.46
March	90.25	91.63	153.3	180.8	9.75	8.47	143.78	152.15

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	283.3	283.8	783.5	785.4	3037.5	3042.2	8.30	8.30	7.50	7.50
November	285.0	284.6	783.6	786.6	3054.0	3059.3	8.35	8.35	7.76	7.76
December	285.0	285.3	787.5	790.3	3066.2	3069.3	8.76	8.76	8.24	8.24
January 1989	288.6	287.9	789.3	786.3	3075.3	3065.6	9.02	9.12	8.38	8.36
February	291.3	287.5	791.2	787.4	3084.7	3069.7	9.15	9.36	8.53	8.55
March	294.0	289.4	793.1	786.3	3093.2	3079.5	9.24	9.85	8.62	8.85
April	295.2	290.3*	800.2	782.9	3120.6	3081.7*	9.27	9.84	8.65	8.65
May	296.1	289.8	809.5	779.6*	3143.2	3077.6	9.23	9.77*	8.63	8.33*
June	297.0	292.4	818.0	784.6	3166.5	3095.2	9.25	9.38	8.55	8.04
July	298.9	294.8	816.5	788.5	3180.2	3110.6	9.68	9.26	8.76	7.96
August	300.7	297.1	817.6	792.2	3193.1	3125.2	9.79	9.32	8.93	8.02
September	302.5	300.6	818.9	797.1	3207.3	3144.5	9.84	9.35	9.02	8.04
October	304.1	302.7	823.2	801.7	3223.5	3165.6	10.13	9.39	9.15	8.11
November	305.3	304.9	826.8	805.1	3246.1	3189.0	10.23	9.46	9.18	8.13
December	306.5	306.5	830.4	810.4	3269.0	3209.9	10.36	9.40	9.20	8.10
January 1990	308.5	307.6	836.3	815.3	3291.5	3233.3	10.35	9.23	9.17	7.86
February	310.3	309.3	842.8	820.8	3306.8	3255.1	10.38	9.02	9.15	7.64
March	312.1	311.0	848.9	825.9	3320.7	3275.3	10.34	8.73	9.12	7.39

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	9.51	9.51	7.47	7.47	8.24	8.24	8.36	8.36	10.00	10.00
November	9.45	9.45	7.46	7.46	8.66	8.66	8.78	8.78	10.05	10.05
December	9.57	9.57	7.61	7.61	9.11	9.11	9.25	9.25	10.50	10.50
January 1989	9.58	9.62	7.43	7.35	9.05	9.04	9.15	9.20	10.50	10.50
February	9.50	9.64	7.38	7.44	9.20	9.37	9.29	9.51	10.50	10.93
March	9.46	9.80	7.35	7.59	9.26	9.95	9.35	10.09	10.50	11.50
April	9.40	9.79	7.31	7.49	9.38	9.81	9.43	9.94	10.50	11.50*
May	9.47	9.54*	7.40	7.22*	9.35	9.56*	9.45	9.72*	10.50	11.50
June	9.54	9.50	7.52	7.13	9.40	9.32	9.49	9.56	10.50	11.17
July	9.83	9.36	7.73	6.98	9.65	9.23	9.76	9.42	11.00	11.00
August	9.92	9.33	7.80	6.95	9.76	9.28	9.84	9.45	11.00	11.00
September	10.01	9.38	7.88	7.02	9.86	9.35	9.93	9.52	11.39	11.00
October	10.20	9.18	7.96	6.79	10.15	9.41	10.24	9.55	11.58	11.00
November	10.36	9.23	8.11	6.86	10.24	9.48	10.35	9.63	12.00	11.00
December	10.25	9.39	8.20	7.03	10.35	9.37	10.46	9.55	12.00	11.00
January 1990	10.25	9.27	8.12	6.92	10.33	9.15	10.44	9.36	12.00	11.00
February	10.22	9.25	8.05	6.89	10.36	8.96	10.47	9.07	12.00	10.76
March	10.17	9.22	8.01	6.87	10.38	8.67	10.49	8.84	12.00	10.50

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